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November 29, 2005

VIA HAND DELIVERY

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, South Carolina 29210

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COMMISSION

RE: Joint Petition of South Carolina Electric & Gas Company and the Office of
Regulatory Staff of South Carolina

Dear Mr. Terreni:

Enclosed for filing, on behalf of South Carolina Electric & Gas Company ("SCE&G") and the Office of Regulatory Staff of South Carolina ("ORS"), are the original and ten (10) copies of the **Joint Petition** of SCE&G and ORS seeking an order authorizing SCE&G to use certain Synfuel Tax Credits to provide bill assistance during this winter to SCE&G's low-income natural gas customers through a program administered by the Office of Economic Opportunity of the Office of the Governor. Please acknowledge receipt of this document by date-stamping the extra copy that is enclosed.

SCE&G and ORS believe the Commission is not required to issue a public notice concerning this matter and may render a decision on our petition without requiring a hearing because the Joint Petition does not involve a change in rates. Accordingly, SCE&G and ORS respectfully request that the Commission schedule this matter for disposition at its earliest convenience.

If you have any questions or need additional information, please do not hesitate to contact us.

With kind regards,

Patricia Banks Morrison

PBM/kms

Enclosures

cc: Shannon Bowyer Hudson, Esquire
Belton Zeigler, Esquire
Mitchell Willoughby, Esquire

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COMMISSION

Joint Petition of South Carolina Electric & Gas Company and the Office of Regulatory Staff for an order authorizing South Carolina Electric & Gas Company to use Synfuel Tax Credits to provide bill assistance to qualifying SCE&G low-income residential natural gas customers through a program administered by the Office of the Governor.

South Carolina Electric & Gas Company (“SCE&G” or the “Company”) and the South Carolina Office of Regulatory Staff (“ORS”) (collectively referred to as the “Parties” or “Petitioner”) hereby file with Public Service Commission of South Carolina (“Commission”) this joint petition, pursuant to S.C. Code Ann. § 58-5-210 *et seq.* (1976 and Supp. 2004) and 26 S.C. Code Ann. Reg. 103-836 (Supp. 2004) seeking an order authorizing SCE&G to use a portion of its synthetic fuel federal tax credits to offset financial assistance¹ to be provided by the Company to certain SCE&G low-income residential natural gas customers through a program administered by the Office of the Governor. This one-time special assistance is being proposed in recognition of the significant increase in gas prices that will occur at the outset and during the 2005-06 winter heating season.

¹ The assistance will be specifically targeted to assist SCE&G's low-income natural gas customers pay their natural gas bills issued during the winter season of 2005-06.

I. INTRODUCTION

1. SCE&G is a corporation organized and existing under the laws of the State of South Carolina. Further, SCE&G is a public utility, which provides, among other things, natural gas services for compensation under the provisions of Chapter 5 of Title 58 of the South Carolina Code. As a natural gas distributor, SCE&G is subject to the jurisdiction of the Commission.

2. The Company's corporate legal counsel in this proceeding is as follows:

Patricia Banks Morrison
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3. The Company's private legal counsel in this proceeding are as follows:

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All correspondence and any other matters of any kind relative to this proceeding should be addressed to the Company's authorized representatives as stated above.

4. ORS is an agency of the State of South Carolina and is charged with the duty to protect the public interest pursuant to S.C. Code Ann. § 58-4-10 *et seq.* as enacted by 2004 S.C. Act 175. Specifically, S.C. Code Ann. § 58-4-10 (B)(1) through (3) reads in part as follows:

...‘public interest’ means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

5. ORS’s legal counsel in this proceeding is as follows:

Shannon Bowyer Hudson, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
(803) 737-0800

All correspondence and any other matters of any kind relative to this proceeding should be addressed to ORS’s authorized representative as stated above.

BACKGROUND

Synfuel Partnerships

6. SCE&G is a limited partner in two (2) partnerships which produce and sell synthetic fuel and generate, net of operating losses and expenses, federal tax credits under Section 29 of the Internal Revenue Code of 1986 (“Synfuel Tax Credits”). The opportunity to earn the Synfuel Tax Credits expires at the end of tax year 2007. All monies used to create and support these partnerships were supplied from investor funds.

7. Notwithstanding the unregulated nature of the partnerships, SCE&G sought to apply the net Synfuel Tax Credits in a way that they secure long-term benefits for the Company’s customers. In furtherance of this goal, the Company, by letter dated June 15, 2000, requested that the Commission approve an alternative accounting treatment wherein the net Synfuel Tax

Credits would initially be deferred in a regulatory liability account and then later applied to offset the capital costs of projects required to comply with legislative or regulatory actions.

8. By letter dated June 21, 2000, the Commission granted the Company's request.

More specifically, the Commission stated,

The Commission has granted your request to allow South Carolina Electric & Gas Company to defer its share of the Federal income tax credits derived from the project, net of the applicable partnership operating loss. The amount deferred shall be applied at the appropriate time to offset the capital costs of projects required to comply with legislative or regulatory actions.

[Letter dated June 21, 2000 to Francis P. Mood from Gary E. Walsh, Executive Director of the Commission].

Saluda Dam Remediation Project

9. Based upon a series of geo-technical analyses, FERC required SCE&G to construct a second "dry" dam to impound water from Lake Murray to protect the downstream population in the event of a breach of the original Saluda Dam (the "Remediation Project"). SCE&G proposed in Docket No. 2004-178-E that the Commission authorize holding the costs of the Remediation Project in a separate account outside of rate base and offsetting the after-tax construction cost with the Company's Synfuel Tax Credits.

10. In Commission Order No. 2005-2, issued in Docket No. 2004-178-E, the Commission approved the Company's request. The Order specifically provided for net Synthetic Tax Credits to be used to offset the cost of the Remediation Project. *See* Commission Order No. 2005-2 at pp.60-61.

11. SCE&G largely completed the Remediation Project by May 2005 at an approximate total cost of \$300 million. Barring any substantial changes in the laws related to

these credits, operational constraints or oil prices being sustained at levels which would trigger the phase-out provisions of Section 29, the Company anticipates that the Synfuel Tax Credits to be received and recognized in its income statement through tax year 2007 will allow the entire cost of the Remediation Project to be offset. Nevertheless, as set forth in Order No. 2005-2, “[i]f risks materialize that prevent successful implementation of the plan, as described above, then the Company will return to the Commission and propose corrective action.” *See* Commission Order No. 2005-2 at p. 61.

Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of SCE&G

12. The Commission conducts annual reviews of the Purchased Gas Adjustments and the Gas Purchasing Policies (“PGA”) of SCE&G. During SCE&G’s 2005 Annual PGA Review (hearing held on October 20, 2005 in Docket No. 2005-5-G), the Commission reviewed the historical period of November 1, 2004 to October 31, 2005, and the forecasted period of November 1, 2005 to October 31, 2006.

13. The market from which SCE&G secures its gas supply is a national market which is dynamic and volatile. In 2005, market prices of natural gas continued to trend upward and were projected to reach new highs. Then, in addition to existing high prices and volatility, supply disruptions caused by Hurricanes Rita and Katrina sent prices to unprecedented levels. To place these levels in context, the cost per dekatherm of natural gas rose 100% from approximately \$7.00 in the spring of 2005 to \$14.00 in October 2005. Moreover, intraday spot market prices exceeded \$20 per dekatherm on certain days in September and October 2005.

14. In Docket No. 2005-5-G, ORS conducted detailed audits of SCE&G’s administration of its PGA. ORS concluded that SCE&G had fully complied with all applicable Commission orders and regulations in the administration of its PGA. Thereafter, SCE&G, ORS

and the South Carolina Energy Users Committee entered into a Settlement Agreement on October 17, 2005.

15. At its agenda meeting on October 25, 2005, the Commission approved the Settlement Agreement presented in Docket No. 2005-5-G, and thereby approved setting the residential total cost of gas factor at \$1.29729 per therm, an increase of 43.6% over the previous factor of \$0.90347.

16. As a result of this increase, SCE&G's residential customers who use natural gas will experience a significant increase in their energy prices this winter. Sharing the Commission's concerns for residential customers, SCE&G and ORS have continued to diligently collaborate to find solutions to mitigate the impact to those customers least able to afford the increase.

Governor's Assistance Program

17. SCE&G and ORS, through the Office of the Governor of South Carolina and subject to the approval of the Commission, propose to assist certain SCE&G low-income residential gas customers with their bills for the winter season of 2005-06, beginning with bills issued in December 2005.

18. The program would consist of bill assistance from SCE&G totaling up to three million dollars (\$3,000,000). This assistance is proposed to be offset by the recognition in the Company's income statement of (net after-tax) Synfuel Tax Credits in an amount of up to \$1.8525 million which would equate to the \$3,000,000 in pretax bill assistance.

19. The Office of Economic Opportunity of the Office of the Governor ("OEO") has agreed to administer the program pending the approval of this Petition by the Commission. Eligibility requirements generally will target low-income households, with priority given to the

elderly and vulnerable households.² As in the case with certain other low-income assistance programs, applicants will be screened by local community action agencies under guidelines to be administered by the OEO.

**PETITION FOR ORDER ALLOWING USE OF SYNFUEL TAX CREDITS
TO OFFSET CONTRIBUTION**

20. In order to assist certain qualifying SCE&G low-income residential customers, the Parties respectfully request that the Commission issue an order authorizing SCE&G to recognize in its income statement up to \$1.8525 million of its net Synfuel Tax Credits. The credits will be used during the winter season of 2005-06 beginning with the bills issued in December 2005 to offset bill assistance of up to three million dollars (\$3,000,000) that will be made available through the Office of the Governor to SCE&G's qualifying low-income residential customers who use natural gas as an energy source.

21. SCE&G and ORS request that the net Synfuel Tax Credits, as they are earned, be recognized, first, to offset the above described assistance to be made through the Governor's Office and, second, to offset the costs of the Remediation Project as set forth in Order No. 2005-2.

22. ORS and SCE&G are informed and believe that this program will benefit many low-income residential households. The Parties also recognize that the increased gas factor is directly related to the high cost of natural gas at the wellhead and does not result in an increase in SCE&G's profits. Finally, the Parties believe that the proposed program is in the public interest and should be approved.

² SCE&G requested that OEO broaden its definition of low-income households for this program to include those households with an income at or below 175% of applicable federal poverty guidelines and vulnerable households as those low-income households with children 5 years old and under, with handicapped or disabled persons residing therein, or with energy bills exceeding 20% of their household income.


REQUEST FOR RELIEF

WHEREFORE, SCE&G and ORS respectfully pray that the Commission issue an order (1) authorizing SCE&G to recognize up to \$1.8525 million of its net Synfuel Tax Credits to offset the costs of up to three million dollars (\$3,000,000) of bill assistance administered through the Office of the Governor and provided to qualifying low-income residential natural gas customers of SCE&G during the winter season of 2005-06 beginning with bills issued in December 2005, (2) authorizing net Synfuel Tax Credits recognized by the Company to be first allocated to this bill assistance program and then to the Remediation Project, and (3) for such other relief as the Commission may find to be just and proper.

[SIGNATURE PAGE TO FOLLOW]

Respectfully submitted,

BY:

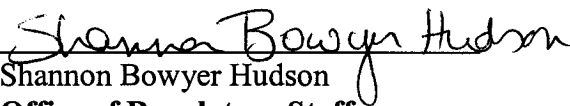

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Regulatory Staff**

Columbia, South Carolina
This 21st day of November, 2005

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